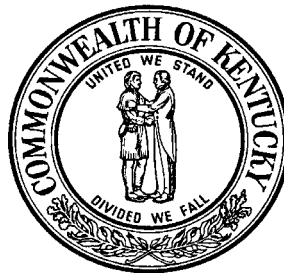


**REPORT OF THE AUDIT OF THE
CLARK COUNTY
FORMER SHERIFF'S SETTLEMENT - 2005 TAXES**

April 28, 2006



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLARK COUNTY
FORMER SHERIFF'S SETTLEMENT - 2005 TAXES

April 28, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for former Clark County Sheriff as of April 28, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$14,631,909 for the districts for 2005 taxes, retaining commissions of \$444,662 to operate the Sheriff's office. The former Sheriff distributed taxes of \$14,114,348 to the districts for 2005 Taxes. Taxes of \$136,320 are due to the districts from the former Sheriff and refunds of \$93,841 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Deposit All Funds Received On A Daily Basis
- The Former Sheriff Should Not Have A Deficit In His Official Account
- The Former Sheriff Should Improve His Recordkeeping Procedures

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
FORMER SHERIFF'S SETTLEMENT - 2005 TAXES.....	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Henry Branham, Clark County Judge/Executive
Honorable Ray E. Caudill, Former Clark County Sheriff
Honorable Berl Purdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the former Clark County Sheriff's Settlement - 2005 Taxes as of April 28, 2006. This tax settlement is the responsibility of the former Clark County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Clark County Sheriff's taxes charged, credited, and paid as of April 28, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2006 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Henry Branham, Clark County Judge/Executive
Honorable Ray E. Caudill, Former Clark County Sheriff
Honorable Berl Purdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Deposit All Funds Received On A Daily Basis
- The Former Sheriff Should Not Have A Deficit In His Official Account
- The Former Sheriff Should Improve Recordkeeping Procedures

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 21, 2006

CLARK COUNTY
RAY E. CAUDILL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 28, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,345,900	\$ 1,618,488	\$ 6,763,576	\$ 2,231,810
Tangible Personal Property	162,599	185,873	653,492	724,274
Intangible Personal Property				182,037
Increases Through Exonerations	47	56	236	78
Franchise Taxes	169,118	190,900	735,155	
Additional Billings	3,268	3,646	13,248	1,689
Bank Franchises	111,163			
Penalties	7,512	9,014	37,343	13,994
Adjusted to Sheriff's Receipt	(356)	(423)	(1,751)	(830)
Gross Chargeable to Sheriff	<u>1,799,251</u>	<u>2,007,554</u>	<u>8,201,299</u>	<u>3,153,052</u>
<u>Credits</u>				
Exonerations	6,101	7,318	30,454	13,906
Discounts	24,751	26,945	110,503	47,405
Delinquents:				
Real Estate	16,975	20,413	85,306	28,149
Tangible Personal Property	216	241	869	1,018
Intangible Personal Property				94
Franchise Taxes:				
Delinquent	7,745	8,131	31,088	
Uncollected	9,038	10,400	42,181	
Total Credits	<u>64,826</u>	<u>73,448</u>	<u>300,401</u>	<u>90,572</u>
Taxes Collected	1,734,425	1,934,106	7,900,898	3,062,480
Less: Commissions *	<u>74,001</u>	<u>82,200</u>	<u>158,018</u>	<u>130,443</u>
Taxes Due	1,660,424	1,851,906	7,742,880	2,932,037
Taxes Paid	1,749,198	1,839,206	7,596,360	2,929,584
Refunds (Current and Prior Year)	<u>3,906</u>	<u>4,597</u>	<u>18,303</u>	<u>3,614</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (92,680)</u>	<u>\$ 8,103</u>	<u>\$ 128,217</u>	<u>\$ (1,161)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
RAY E. CAUDILL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
April 28, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	6,721,011
2% on	\$	7,900,898

** Special Taxing Districts:

Library District	\$	5,494
Health District		2,439
Extension District		<u>170</u>
Due Districts	\$	<u><u>8,103</u></u>

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT

April 28, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT
April 28, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of April 28, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 10, 2005 through April 28, 2006.

Note 4. Interest Income

The former Clark County Sheriff earned \$35,160 as interest income on 2005 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was to be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Clark County Sheriff collected \$52,559 of 10% add-on fees allowed by KRS 134.430(3). This amount was to be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Clark County Sheriff collected \$693 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees are to be used to operate the Sheriff's office. As of December 21, 2006, the former Sheriff owed \$693 in advertising costs to the county.

COMMENTS AND RECOMMENDATIONS

CLARK COUNTY
RAY E. CAUDILL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 28, 2006

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Deposit All Funds Received On A Daily Basis

During our review of the deposits in transit, we noted a deposit did not clear the bank until 30 days after collection. Technical Audit Bulletin 93-002, Section 3 requires the Sheriff "to deposit all public funds received into an official bank account on a daily basis." By not properly depositing monies received by the office, this could result in loss of receipts or misplaced monies. We recommend the former Sheriff adhere to the requirements of Technical Audit Bulletin 93-002 by depositing all public funds received into an official account on a daily basis.

Former Sheriff's Response: New procedures will be implemented for future deposits.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

We noted a lack of an adequate segregation of duties for the internal control structure and its operation. The former Sheriff could implement some of the following procedures to establish an adequate segregation of duties.

- Daily receipts reconciled to daily checkout sheet by a person who has no access to accounting records and does not make deposits
- Recording of receipts and disbursements ledgers by an individual who does not make a deposit or sign checks
- All computers should be password protected and the staff should not share the password with any one else in the office for any reason.
- Bank reconciliation prepared monthly and agreed to the receipts and disbursements ledgers by an individual who has no access to accounting records and makes no deposits.

Former Sheriff's Response: We are aware of the lack and are trying to implement new procedures.

The Former Sheriff Should Not Have A Deficit In His Official Account

Based upon available records, the former Sheriff had a deficit of \$1,199 in his official bank account as of April 28, 2006. The deficit results from the payment of the assessed penalties by the state for insufficient payment of taxes due. We recommend the former Sheriff eliminate this deficit by depositing personal funds of \$1,199 into the official tax account.

Former Sheriff's Response: The funds will be deposited.

CLARK COUNTY
RAY E. CAUDILL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 28, 2006
(Continued)

The Former Sheriff Should Improve Recordkeeping Procedures

During our testing of Franchise Tax Collections, we found six (6) franchise tax bills that were not sent to the taxpayer. These bills were prepared by the County Clerk and delivered to the former Sheriff; however, the former Sheriff failed to send these bills to the taxpayer. We recommend these six (6) franchise tax bills be sent to the taxpayers and the former Sheriff implement procedures to ensure all franchise tax bills are properly accounted for in the future.

During testing of daily receipts we noted daily collection reports did not always agree to daily deposits and the differences were not explained. We also noted in some instances the daily deposit ticket did not agree to the bank statement. The differences were documented with a bank correction from the bank recognizing an increase/decrease in the daily deposit. We recommend that daily deposits be reconciled to the daily activity reports and this reconciliation be documented. We also recommend that any discrepancy in the deposit ticket and bank deposit be documented for future referencing.

During the audit, it was noted that office staff could perform transactions under other staff names. Each staff person should have his or her own password that is not shared with others. The administrator should have access to make necessary changes but should not be allowed to sign on under anyone else's name. We recommend the former Sheriff work with the systems vendor to ensure that proper administrative procedures and adequate security measures have been taken.

Former Sheriff's Response: New procedures will be implemented to correct issues.

PRIOR YEAR:

These comments have been corrected:

- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- Sheriff's Official Receipt Should Be Prepared Prior To The Collection Of Taxes

These comments have not been corrected and are repeated in this audit:

- Tax Collections Should Be Deposited Intact On A Daily Basis
- The Sheriff Should Improve Record-Keeping Procedures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Henry Branham, Clark County Judge/Executive
Honorable Ray E. Caudill, Former Clark County Sheriff
Honorable Berl Purdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Clark County Sheriff's Settlement - 2005 Taxes as of April 28, 2006, and have issued our report thereon dated December 21, 2006. The former Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Clark County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Not Have A Deficit In His Official Account
- The Former Sheriff Should Improve Recordkeeping Procedures

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Clark County Sheriff's Settlement - 2005 Taxes as of April 28, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former Sheriff Should Deposit All Funds Received On A Daily Basis

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 21, 2006

